

Message Text

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PAGE 01 RABAT 02796 121822Z

65

ACTION NEA-10

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TAGS: EMIN ETRD EFIN EGEN MO

SUBJ: MOROCCAN PHOSPHATE PRODUCTION: ECONOMIC IMPACT AND
IMPLICATIONS

REF: A. LOME 1297

B. RABAT 1817

C. RABAT 2770

D. STATE 137185

SUMMARY: SOURCES VARY IN JUDGMENT RE INTENSITY OF FALL IN
MOROCCAN PHOSPHATE SALES AND DEGREE OF PRICE SHAVING, BUT
AGREE THAT SITUATION GRAVER THAN EARLIER REPORTS INDICATED
AND MAY STILL BE DETERIORATING. "TRIANGULATION" BASED ON
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PAGE 02 RABAT 02796 121822Z

VARIETY OF DATA SUGGESTS GOM MAY BE CONFRONTING LOSS OF

\$400-\$500 MILLION ON BUDGET ESTIMATES (7-9 PER CENT OF 1974 GNP) WITH SERIOUS IMPLICATIONS FOR INVESTMENT, GROWTH, AND EMPLOYMENT. DECISIONS ON PHOSPHATE POLICY HAVE IMPLICATIONS FOR THE POLITICAL FUTURE OF THE INDIVIDUALS CONCERNED, THUS WEAKENING MOROCCO'S ROLE AS "PRICE LEADER" FOR OTHER PHOSPHATE PRODUCERS AND COMPLICATING DECISION-MAKING PROCESS. PRICE-CUTTING THEREFORE MOST LIKELY WILL BE INITIATED BY SMALLER PRODUCERS, WITH MOROCCO FOLLOWING LATER. DOMESTICALLY, PRESSURE WILL INCREASE FROM FINANCIAL SIDE FOR LOWER SUBSIDIES ON FOODSTUFFS TO MAINTAIN PLAN OBJECTIVES, ATTENTION TO NEEDS OF FOREIGN INVESTORS WILL RECEIVE NEW IMPULSE, RELIANCE ON FOREIGN CREDITS TO FINANCE GRAIN IMPORTS WILL INTENSIFY, AND NEED WILL INCREASE FOR SUBSTANTIAL BORROWING IN EURO-CURRENCY MARKETS. END SUMMARY.

1. SINCE REDUCTION OF PRODUCTION TARGETS AND SOFTENING OF PRICES REPORTED REFTELS, WE HAVE FOUND IT EXCEEDINGLY DIFFICULT TO CONFIRM PRECISE MOROCCAN OUTPUT LEVELS OR SPOT PRICES. SOURCES WHO HAVE CUSTOMARILY HAD ACCESS TO DATA HAVE GIVEN WIDELY VARYING ESTIMATES. SINCE BOTH SUPPLY AND PRICE FIGURES ARE OF ENORMOUS FINANCIAL IMPORTANCE--AND HENCE MATTERS OF HIGH STATE POLICY AT TIME OF MOUNTING BUDGETARY AND BALANCE OF PAYMENTS PROBLEMS--ONLY HIGHEST LEVELS OF OCP AND FINANCE MINISTRY SEEM CURRENTLY IN-THE-KNOW. AND THEY ARE HOLDING DATA VERY CLOSELY.

2. JUNE 6 ISSUE OPPOSITION DAILY L'OPINION CONTAINED 18-LINE NEWS BRIEF ON INSIDE PAGE ASSERTING, WITHOUT COMMENT OR INTERPRETATION, THAT OCP PHOSPHATE ROCK EXPORTS DURING FIRST QUARTER WERE 2,962,580 MT. AS ANNUALIZED PROJECTION, THIS WOULD REFLECT 33 PER CENT DROP IN EXPORTS FROM LAST YEAR'S LEVEL AND FALL OF NEARLY 50 PER CENT FROM INITIAL 1975 PROJECTIONS. EVEN WITHOUT TAKING INTO ACCOUNT PRICE SHAVING, OPINION FIGURES WOULD, IF ACCURATE AND IF FIRST QUARTER TREND CONTINUES, REFLECT FALL IN TURNOVER OF \$375 MILLION FROM LAST YEAR'S LEVEL AND REDUCTION OF FOREIGN EXCHANGE AVAILABILITIES OF \$650-\$700 MILLION IN TERMS OF 1975 BUDGET PROJECTIONS. THIS WOULD VERGE ON CATASTROPHIC. LOCAL NEWSPAPERS HAVE BEEN SEIZED FOR PRINTING LESS SENSITIVE MATTERS, BUT SUBJECT PRESUMABLY TOO ESOTERIC FOR CENSOR TO GRASP IMPLICATIONS OF LIMITED OFFICIAL USE

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PAGE 03 RABAT 02796 121822Z

THIS SHORT ARTICLE. AMCONGEN CASABLANCA UNDERTAKING TO FIND OUT WHAT IT CAN FROM PORT AUTHORITIES RE ACCURACY OPINION FIGURES.

3. DURING JUNE 10 DISCUSSION WITH FINANCE DIRECTOR NATIONAL RAILROADS (ONCF), ECOUN OBTAINED WHAT MAY, HOWEVER, PROVE MOST RELIABLE ESTIMATE OF SITUATION. OCP IS ONCF'S LARGEST CUSTOMER AND FREIGHT LOADINGS THEREFORE CLOSELY WATCHED AS

INDICATOR ONCF FINANCIAL OUTLOOK. CONTACT SAYS THAT DURING FIRST FOUR MONTHS, FOR WHICH CONSOLIDATED FIGURES AVAILABLE, PHOSPHATE SHIPMENTS DOWN BY 20 PER CENT. HE ASSERTS SITUATION SERIOUS BUT NOT AS BAD AS OPINION ARTICLE IMPLIES, BUT ADDED THAT FOR PAST TWO WEEKS SITUATION HAS DETERIORATED FURTHER WITH NO PHOSPHATE SHIPMENTS AT ALL ON SOME DAYS.

4. ADDRESSEES, PARTICULARLY WASHINGTON END-USERS, MAY BE INTERESTED IN OBTAINING MAY 27 LONDON TIMES WHICH CONTAINS SPECIAL REPORT INSERT ON WORLD PHOSPHATE SITUATION. ROBERT ARIES ARTICLE (PAGE 4 OF INSERT) KNOWLEDGABLY REVIEWS PROBLEMS CONFRONTING MOROCCO AS NEW PHOSPHATES PRICE LEADER. IN COURSE OF ANALYSIS, ARIES ASSERTS SPOT PRICES ARE 15 PER CENT BELOW POSTED LEVELS. THIS IS FIRST FIX WE'VE HAD--OTHER THAN DIRECTION OF CHANGE--ON PRICE SIDE. UNFORTUNATELY, WE STILL UNABLE TO DETERMINE WHAT PROPORTION OF CURRENT SALES MAY BE AT SPOT. ARIES ARTICLE REPORTS THAT SUBSTANTIAL NUMBER OF CONTRACTS WILL BE UP FOR RENEGOTIATION IN JULY BUT THAT MAJOR CONSUMERS HESITANT TO RENEW, BELIEVING CONTRACT PRICES MAY SOON FALL BELOW SPOT. IN MEANTIME, CONTRACTORS EXERCISING OPTION CLAUSE TO TAKE 10 PER CENT BELOW SPECIFIED TONNAGE, WHEREAS LAST YEAR ALL WERE TAKING OPTION TO BUY 10 PER CENT ABOVE. (N.B. TWENTY PER CENT DIFFERENCE APPEARS TO CONFIRM ONCF ESTIMATE CITED ABOVE.) ARIES SUGGESTS MOROCCO, AS PRICE LEADER, RELUCTANT TO BE FIRST TO CUT PRICE OPENLY, PREFERRING THAT OTHERS TAKE LEAD. TO THIS, WE CAN ADD ADDITIONAL ELEMENT SUPPORTING SUCH CAUTION: I.E., POLITICAL FUTURE OF SENIOR MOROCCAN OFFICIALS WHICH WOULD BE COMPROMISED BY OPEN ADMISSION OF ERRONEOUS JUDGMENT FOLLOWING SERIES OF BOLD POLICY STATEMENTS--ALL AT TIME WHEN SOME VERY LARGE BILLS COMING DUE BASED ON LAST YEAR'S BUDGET PROJECTIONS.

5. ON BALANCE, WE ESTIMATE SITUATION NOT AS BAD AS OPINION LIMITED OFFICIAL USE

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PAGE 04 RABAT 02796 121822Z

ARTICLE IMPLIES, BUT IS VERY SERIOUS INDEED AND MAY BE GETTING WORSE. TAKING INTO ACCOUNT PRICE SIDE, TOTAL MOROCCAN FOREIGN EXCHANGE LOSSES MAY BE APPROACHING \$400-\$500 MILLION LEVEL (7-9 PER CENT OF 1974 GNP). THIS WOULD VIRTUALLY WIPE OUT FOREIGN AID AND CREDITS LINED UP DURING SERIES OF LIGHTNING VISITS TO EUROPEAN AND MIDDLE EASTERN COUNTRIES DURING EARLY MONTHS OF YEAR AND RESULT IN NO-GROWTH (POSSIBLY EVEN NEGATIVE-GROWTH) SITUATION IN 1975.

6. HOWEVER ACCOMPLISHED, WE AGREE WITH TIMES ASSESSMENT THAT PHOSPHATE PRODUCERS WILL HAVE TO ADJUST PRICE GAINS OF PAST 18 MONTHS TO CURRENT DEMAND REALITIES AND THAT THIS WILL HAVE SERIOUS REPERCUSSIONS ON CENTRAL GOVERNMENT BUDGETS, DEVELOPMENT PLANS, AND BALANCE OF PAYMENTS PERFORMANCES OF LDC PHOSPHATE PRODUCERS. AS NOTED, THIS WILL AFFECT NOT

LEAST OF ALL PERFORMANCE OF MOROCCAN ECONOMY WHICH HAS EMERGED
AS LARGEST EXPORTER IN WORLD WITH PHOSPHATE ROCK ACCOUNTING
FOR APPROXIMATELY 70 PER CENT OF PROJECTED EXPORT EARNINGS
THIS YEAR.

7. AT LEAST FOUR ELEMENTS OF POLICY WILL BE AFFECTED:

A. FINANCIAL PRESSURES WILL INTENSIFY TO REDUCE
SUBSIDIES ON BASIC FOODSTUFFS IN ORDER TO MAINTAIN REASONABLE
LEVEL OF PUBLIC SECTOR INVESTMENT WHICH REMAINS PRIME MOVER IN
ECONOMY.

B. CAMPAIGN TO ATTRACT FOREIGN INVESTORS WILL
BE STEPPED UP. WE HAVE ALREADY RECEIVED INTIMATION OF THIS
IN INITIATIVES MADE TO EMBASSY ABOUT ACTIONS GOM MIGHT TAKE
TO STIMULATE INCREASED US INVESTMENT.

C. GOM EFFORTS TO OBTAIN SUBSTANTIAL PL-480 TITLE I AND
MAJOR CCC CREDITS TO FINANCE GRAIN IMPORTS WILL CONTINUE
TO RECEIVE HIGH PRIORITY.

D. SUBSTANTIAL BORROWING IN EURO-CAPITAL MARKET WILL
EMERGE AS CRUCIAL FACTOR WHICH MIGHT ENABLE MINFIN TO COVER
OBLIGATIONS AS YEAR PROGRESSES.
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